TMW 161

REMARKS OF

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CHAIRMAN,

SUBCOMMITTEE ON HEALTH AND THE ENVIRONMENT

BEFORE

THE BUSINESS WEEK/WASHINGTON HEALTH LETTERS CONFERENCE

ON CORPORATE HEALTH CARE COST CONTAINMENT

OCTOBER 6, 1982

I'M GLAD TO BE ABLE TO JOIN YOU TODAY, GLAD TO BE IN CALIFORNIA FOR A WHILE, AND GLAD THAT THE CONGRESS HAS GONE OUT OF SESSION.

LAST YEAR AT THIS TIME, THE WASHINGTON HEALTH LETTERS REPORTED MY DESCRIPTION OF HOW MANY REPUBLICANS IT TAKES TO CHANGE A LIGHT BULB: NONE, BECAUSE THE INVISIBLE HAND OF THE MARKETPLACE WILL DO IT FOR THEM.

SO FOR MY RETURN ENGAGEMENT WITH MCGRAW-HILL, LET ME TELL YOU WHAT I'VE LEARNED ABOUT HOW MANY WHITE HOUSE STAFF IT TAKES TO CHANGE A LIGHT BULB: THREE--

ONE TO REMIND THE PRESS THAT THE DEMOCRATS BOUGHT THE OLD BULB;

ONE TO PROMISE EVERYONE IN THE DARK THAT THE NEW BULB WILL PROBABLY ARRIVE IN ANOTHER QUARTER OR TWO; AND

ONE TO ASK THE PRIVATE SECTOR TO VOLUNTEER THEIR OLD FLASHLIGHTS.

THAT'S THE WAY IT'S BEEN THESE PAST TWO YEARS WITH THE REAGAN ADMINISTRATION AND ITS BUDGET PROPOSALS, AND I'M AFRAID THAT THAT'S THE WAY IT'S GOING TO BE FOR SOME TIME TO COME.

IN THIS CONGRESS, HEALTH ISSUES HAVE INVOLVED ONLY DAMAGE CONTROL AND NOT IMPROVEMENT OF PROGRAMS OR POLICY. THE ADMINISTRATION HAS APPROACHED ALL ISSUES WITH THE SOLE AIM OF CUTTING EXPENDITURES--NO MATTER WHAT THE CONSEQUENCES MAY BE.

EVEN THE CONGRESS--THROUGH THE BUDGET PROCESS--HAS ADDRESSED THESE ISSUES IN MUCH THE SAME WAY:

HOW TO CUT EXPENDITURES, AND

HOW TO CUT THE DEFICIT.

THE RESULT HAS BEEN LEGISLATION BY STATISTICS, AND OFTEN QUESTIONABLE STATISTICS AT THAT.

THIS HAS MEANT A LOT OF FRUSTRATION TO THOSE OF US WHO THINK THAT OUR HEALTH PROGRAMS NEED EXPANSION AND IMPROVEMENT. WHILE WE HAVE HAD SOME SUCCESSES IN TURNING BACK THE WORST OF THE ADMINISTRATION'S SHORT-SIGHTED INITIATIVES, OUR BEST VICTORIES HAVE BEEN JUST PROTECTING WHAT WE'VE GOT.

SO WE CAN BE HAPPY THAT WE DEFEATED THE MEDICAID CAP LAST YEAR AND THE MOST DRACONIAN OF THE COST-SHIFTING PROPOSALS THIS YEAR.

BUT WE STILL MUST REMEMBER THAT FEDERAL SUPPORT HAS BEEN CUT BACK DRAMATICALLY, THAT COST-SHARING HAS BEEN INCREASED IN THE PROGRAM, AND THAT NOW STATES WILL TAKE OUT LIENS ON THE HOMES OF THE ELDERLY.

ANY OF THOSE PROPOSALS WOULD HAVE HORRIFIED MOST PEOPLE A YEAR AGO.

BUT NEXT YEAR WE CAN EXPECT MORE OF THE SAME:

ADMINISTRATION PROPOSALS FOR MORE BUDGET CUTS,
THE SO-CALLED "NEW FEDERALISM,"
MORE BUDGET CUTS,
THE SO-CALLED "PRO-COMPETITION" BILLS, AND
MORE BUDGET CUTS.

THE LEGISLATIVE FIGHTS OVER THE NEXT TWO YEARS WILL NOT BE WHERE THEY SHOULD BE. WE PROBABLY WON'T DISCUSS EXPANDING COVERAGE FOR THE UNINSURED AND FOR THE MILLIONS OF UNEMPLOYED. OR MEETING THE HEALTH AND LONG TERM CARE NEEDS OF THE GROWING NUMBER OF ELDERLY IN THE NATION. OR INDEED THE CONTAINMENT OF THE EXPLOSION OF HEALTH AND HOSPITAL COSTS.

INSTEAD WE WILL ONCE MORE BE TRYING TO PROTECT EXISTING PROGRAMS FROM THOUGHTLESS SLASHES AND LIMITATIONS.

I DO NOT MEAN TO SUGGEST THAT I ADVOCATE RETAINING ALL ASPECTS OF THE PRESENT PAYMENT SYSTEMS. I HAVE LONG SUPPORTED AN OVERALL MOVE TOWARD PROSPECTIVE REIMBURSEMENT SYSTEMS IN MEDICARE AND MEDICAID. BUT THE ADMINISTRATION'S PROPOSALS ARE TO CUT BILLIONS OF DOLLARS IN MONTHS AND TO REQUIRE THAT WE TRY TO PRODUCE THESE NEW PLANS AND LEGISLATION IN WEEKS.

WITHIN THIS TIME FRAME, SIGNIFICANT REDUCTIONS IN THE MEDICARE AND MEDICAID PROGRAMS CAN BE PRODUCED IN TWO WAYS: CARE CAN BE REDUCED, OR COSTS CAN BE SHIFTED.

DESPITE ALL THE RHETORIC TO THE CONTRARY, THE NEW FEDERALISM DRAFTS AND THE RUMORED CHANGES IN MEDICARE CONTAIN MANY PROPOSALS THAT WILL DO BOTH. ELIGIBILITY MAY BE DELAYED. MEANS TESTS MAY BE IMPOSED ON MEDICARE. DEDUCTIBLES MAY BE INCREASED. CO-PAYMENTS MAY BE IMPOSED. REIMBURSEMENT RATES MAY BE LOWERED.

FEWER PEOPLE WILL GET LESS CARE AND PAY MORE FOR IT OUT OF THEIR OWN POCKETS.

AND THE PREMIUMS FOR PRIVATE INSURANCE WILL BEGIN TO REFLECT COSTS THAT HOSPITALS CAN'T GET FROM THEIR MEDICARE AND MEDICAID PATIENTS.

MANY OF THESE REDUCTIONS WILL BE FELT ONLY BY THE ELDERLY AND THE POOR THEMSELVES. MANY OF THESE PEOPLE WILL SIMPLY NOT BE ABLE TO FIND A DOCTOR OR A HOSPITAL TO CARE FOR THEM. IN THE ACCOUNTING SYSTEM OF THE WHITE HOUSE, THESE PEOPLE WILL SIMPLY GO "OFF-BUDGET" AND THEIR PROBLEMS ARE NO LONGER OUR PROBLEM.

BUT EVEN IN SUCH A COLD ANALYSIS, MANY OF THESE CUTS WILL NOT GO QUIETLY AWAY.

BECAUSE A GOOD MANY PROVIDERS FEEL SOME RESPONSIBILITY TO CARE FOR THE SICK AND DISABLED AND BECAUSE THE FEDERAL REIMBURSEMENT SYSTEM HAS SUCH A COMMANDING MARKET SHARE, MANY HOSPITALS AND PHYSICIANS MAY CONTINUE TO SEE MEDICARE AND MEDICAID PATIENTS--EVEN IF THE FEDERAL PAYMENT FOR THEIR CARE HAS BECOME ALTOGETHER INADEQUATE.

THE RESULT WILL BE BAD DEBTS THAT ARE SHIFTED AROUND TO BE PAID BY INSURED AND SOLVENT PAYORS, AND A GREATLY INCREASED NUMBER OF CROSS-SUBSIDIES AND COST-SHIFTS.

YOU--AND THE BUSINESS COMMUNITY YOU REPRESENT A PART OF--WILL, AS THE PURCHASERS OF OVER A QUARTER OF THE PERSONAL HEALTH CARE IN AMERICA, BECOME RESPONSIBLE FOR AN INCREASING SHARE OF THE COSTS. EXPENSES THAT HOSPITALS CAN'T RECOVER FROM GOVERNMENT PATIENTS MUST BE PASSED THROUGH TO SOMEONE. AS THE FEDERAL GOVERNMENT GIVES UP ONE OR TWO PERCENT OF ITS SHARE OF THE MARKET, YOU WILL BE THE INVOLUNTARY RECIPIENT.

IF THE POOR AND ELDERLY ARE TO RECEIVE HOSPITAL CARE AT ALL, THE PLAIN MESSAGE OF SUCH COST SHIFTS IS THAT THE PRIVATE SECTOR WILL PAY FOR IT.

YOU MUST UNDERSTAND THAT THIS IS THE MESSAGE OF THE ADMINISTRATION'S COST CONTAINMENT PROPOSALS AS WELL, FOR UNLIKE THE CARTER PROPOSALS OF A FEW YEARS AGO, SUCH REGULATORY SCHEMES ARE DESIGNED TO CONTROL COSTS FOR MEDICARE ALONE--A SORT OF "DEVIL-TAKE-THE-HINDMOST" APPROACH TO INFLATION CONTROL.

I WON'T GIVE A LECTURE NOW ON THE NEED FOR GOVERNMENT TO CARE FOR THE POOR AND THE SICK.

BUT I WILL SAY THAT WHATEVER YOUR INITIAL VIEW OF AMERICANS' RIGHTS TO HEALTH CARE MAY BE, THE WHITE HOUSE PROPOSALS THAT ARE NOW BEING DISCUSSED ARE SOME OF THE MOST DAMAGING IMAGINABLE--FOR BOTH <u>PUBLIC</u> PATIENTS AND <u>PRIVATE</u> PAYORS.

AND I MUST REPEAT TO YOU THE POINT THAT I HAVE ARGUED LONG BEFORE THIS ADMINISTRATION EVEN ACKNOWLEDGED THERE WAS A PROBLEM: HEALTH CARE COSTS ARE GROWING TOO MUCH AND TOO QUICKLY. NO PART OF SOCIETY--PUBLIC OR PRIVATE--CAN LONG CONTINUE TO SUPPORT INFLATION RATES THAT APPROACH FIFTEEN OR TWENTY PERCENT. THE REGULATION OF MEDICARE OR PUBLIC COSTS ALONE IS AN INEFFICIENT AND ULTIMATELY INEFFECTIVE WAY TO DEAL WITH THE NATION'S EXPLOSION OF HEALTH COSTS.

BUT SOMETHING MUST BE DONE FOR ALL PURCHASERS OF HEALTH CARE AND ALL PATIENTS.

MANY BUSINESSES--AND CERTAINLY MANY OF YOU HERE TODAY--HAVE BEGUN TO RECOGNIZE THAT THESE COSTS ARE DIRECT AND AS MUCH A PART OF YOUR ENTERPRISE AS THE NEGOTIATIONS OVER RAW MATERIALS OR SALES COMMISSIONS. MANY HAVE BEGUN FORMING COALITIONS TO MANAGE COSTS AND CARE BETTER.

BUT SINCE NOT EVEN A SELF-INSURER OR AN H.M.O. IS FULLY INSULATED FROM THE IMPACT OF COSTS TO FEDERAL AND INDIVIDUAL PURCHASERS, WE ALL MUST RECOGNIZE OUR COMMON INTEREST IN THE MOST EFFICIENT USE OF OUR PUBLIC AND PRIVATE RESOURCES.

THE FEDERAL CONCERN IS CLEAR: WHEN HOSPITAL INFLATION SHOOTS UP AT A RATE TWICE THAT OF THE CONSUMER INDEX, CURRENT PROGRAMS ABSORB ALL POSSIBLE FUNDS. AS A RESULT, ANY IMPROVEMENTS IN PUBLIC CARE OR COVERAGE ARE STOPPED BEFORE THEY CAN START: THE CHILD HEALTH ASSURANCE PROGRAM, FOR EXAMPLE--PROBABLY A $2 BILLION PROGRAM, AT MOST, TO IMPROVE THE HEALTH OF CHILDREN ACROSS THE ENTIRE NATION--WAS DEFEATED BECAUSE OF ITS COSTS. MANY OF THE MEDICARE/MEDICAID IMPROVEMENTS PROPOSED IN THE LAST YEAR OF THE CARTER ADMINISTRATION WERE LIKEWISE PUT ASIDE.

INDEED, AS THE PAST TWO YEARS' BUDGET RECONCILIATION BILLS HAVE SHOWN, INFLATING COSTS IN HEALTH WILL LEAD DIRECTLY TO THE REDUCTION OF EXISTING BENEFITS AND ELIGIBILITY.

OVERBEDDED HOSPITALS ARE QUICKLY TRANSLATED INTO FEWER POLIO SHOTS.

INEFFICIENCIES IN BOND SUBSIDIES MEAN WE CANNOT AFFORD TO TRAIN NURSES.

AND ACCORDING TO THE ESTIMATES OF THE CONGRESSIONAL BUDGET OFFICE, EVERY ONE-PERCENT INCREASE IN HOSPITAL INFLATION COSTS THE FEDERAL GOVERNMENT $35Ø MILLION--AS MUCH AS THE ENTIRE MATERNAL AND CHILD HEALTH PROGRAM.

THE PRIVATE INTEREST IS EQUALLY CLEAR: U.S. BUSINESSES ARE ESTIMATED TO HAVE PAID SIXTY BILLION DOLLARS FOR EMPLOYEE HEALTH PLANS IN 198Ø, AND INSURANCE RATES HAVE SOARED OVER THE PAST TWO YEARS. CORPORATE ZERO-SUM GAMES ARE PERHAPS MORE SPECIFIC, BUT THEY ARE EQUALLY EASY TO DESCRIBE. FAILURE TO CONTROL HEALTH EXPENSES WILL QUICKLY MEAN AN OPERATING COST TOO HIGH FOR ANYONE WITH PROFIT MARGINS LOWER THAN ATARI OR STEVEN SPIELBERG. IN LABOR-INTENSIVE INDUSTRIES, HEALTH BENEFITS PACKAGES HAVE BECOME MORE CONTROVERSIAL THAN WAGE NEGOTIATIONS.

EFFORTS TO CONTROL THE GROWTH IN THESE EXPENSES CAN INVOLVE COMPETITION OR REGULATION OR SOME COMBINATION OF THE TWO. THIS YEAR MANY PEOPLE SEEM TO THINK THAT COMPETITION CAN HANDLE ALL PROBLEMS AND MAKE HEALTH CARE AFFORDABLE. REMEMBER, THOUGH, THAT IN 1974 MANY PEOPLE ARGUED THAT PLANNING WAS THE FINAL AND ONLY SOLUTION.

CLEARLY PLANNING HAS NOT BECOME THE COMPLETE ANSWER. I DO NOT BELIEVE THAT COMPETITION WILL BE EITHER.

WE HAVE RECEIVED NO HELPFUL SUGGESTIONS FROM THE ADMINISTRATION.

WE HAVE HEARD MUCH ABOUT THEIR PROPOSALS FOR COMPETITION. BUT NOT ONE CONCRETE SUGGESTION HAS MADE ITS WAY OUT OF THE WHITE HOUSE. EVERYONE--MYSELF INCLUDED--IS IN FAVOR OF SOME SORT OF COMPETITIVE PROPOSALS FOR THE MEDICAL MARKET. BUT THE SPECIFICS OF ANY PROPOSAL ARE EXTREMELY CONTROVERSIAL.

MOST ECONOMISTS--INCLUDING THE CONGRESSIONAL BUDGET OFFICE--ARE UNWILLING TO PROJECT ANY SAVINGS UNTIL YEARS AFTER A PROGRAM IS IN PLACE. UNTIL THE HEALTH MARKET BEGINS TO FUNCTION AS A MARKET WITH ELEMENTS OF COMPETITION, SOME REGULATION IS NECESSARY TO CONTAIN THE RUNAWAY GROWTH OF COSTS.

THE ADMINISTRATION HAS NOT PROPOSED ANY ALTERNATIVES.

BUT THE WHITE HOUSE IS CONTINUING IN ITS ATTEMPTS TO REMOVE WHATEVER COST-RESTRAINTS WE ALREADY HAVE WITHIN THE SYSTEM. THEY HAVE PROPOSED AND WORKED FOR THE REPEAL OF HEALTH PLANNING FOR TWO YEARS IN A ROW.

IN FACT, SOME OF THE ADMINISTRATION'S RHETORIC ABOUT COMPETITION MAKES IT SOUND AS IF AIMLESS EXPANSION IS PREFERRED. WHATEVER LEFTOVER BEDS THERE MAY BE ARE SIMPLY "THE BYPRODUCT OF THE MARKET." (THEY NEGLECT TO POINT OUT THAT, UNLIKE A TRUE MARKET, THERE IS A SAFETY NET OF INSURERS AND CONSUMERS TO CUSHION THOSE "COMPETITORS" WHO ARE OVERBUILT AND UNDERUSED).

ALTHOUGH THE HOUSE HAS PASSED A LIMITED FORM OF PLANNING THIS YEAR, THE SENATE HAS FOLLOWED THE ADMINISTRATION LINE AND FAILED TO ACT AT ALL.

THAT STATEMENT HAS NOT GONE UNNOTICED. HEARING THIS INVITATION TO EXPAND AND TO MAKE "HIGH-TECH" PURCHASES, THE HOSPITAL INDUSTRY HAS ANTEED UP FASTER THAN YOU CAN SAY MARTIN-MARIETTA.

TESTIFYING BEFORE MY SUBCOMMITTEE A FEW MONTHS AGO, THE WASHINGTON BUSINESS GROUP ON HEALTH WARNED THAT WE ARE ALREADY BEGINNING TO SEE A "BUILDING BOOM OF UNPRECEDENTED PROPORTIONS."

REPRESENTATIVES FROM THE COMMERCIAL HEALTH INSURERS WENT ON TO SAY THAT THE NATION HAD "GREAT REASONS TO FEAR UNRESTRAINED CAPITAL EXPANSION." THEY SUMMARIZED A SURVEY WHICH REVEALED "ALARMING INCREASES" IN PROPOSED HOSPITAL CAPITAL PROJECTS.

FINALLY, WITNESSES FROM THE STATES PRESENTED DETAILED EVIDENCE OF AN "EXPLOSION OF CAPITAL EXPANSION" BY THE HOSPITALS AND NURSING HOMES IN TWENTY STATES.

I DO NOT MEAN TO SUGGEST THAT I THINK THAT ALL RENOVATION AND CONSTRUCTION PROJECTS ARE BAD. NO ONE WOULD ARGUE THAT THE HOSPITALS SHOULD JOIN THOSE OTHER AMERICAN INDUSTRIES THAT HAVE ALLOWED THEIR PLANTS AND SYSTEMS TO DETERIORATE BELOW PRODUCTIVE LEVELS. AND THERE ARE CERTAINLY SOME AREAS STILL IN GREAT NEED OF INCREASED CAPACITY.

BUT I DO MEAN TO SAY THAT THE BUILDING BOOM THAT IS UPON US NOW DOES NOT RESPOND TO EITHER OF THESE PROBLEMS. INDEED, TO THE EXTENT THAT THIS UNPLANNED CONSTRUCTION DRAINS ALL CAPITAL AWAY TO BLUE CHIP HOSPITALS, IT MAKES WORSE THE NEED FOR RENOVATION AND EXPANSION OF OTHER COMMUNITY FACILITIES.

THE CONGRESS SHOULD MONITOR THIS SITUATION CLOSELY. A RETURN TO THE RATE OF HOSPITAL CONSTRUCTION AS IT WAS BEFORE THE PLANNING PROGRAM BEGAN WOULD, WITHIN FIVE YEARS, ADD OVER THREE BILLION DOLLARS ANNUALLY TO THE FEDERAL REIMBURSEMENT PROGRAMS AND WELL OVER TEN BILLION TO THE NATION'S HOSPITAL BILLS.

LIKEWISE, THE PROSPECTS OF THE REPEAL OR WEAKENING OF THE UTILIZATION REVIEW PROGRAMS IS CAUSE FOR CONCERN. ANY EFFECTIVE COST CONTAINMENT PROGRAM--PUBLIC OR PRIVATE--MUST INCLUDE AN EFFECTIVE REVIEW OF INDIVIDUAL USES OF HEALTH CARE. BY LIMITING THE PROGRAM NOW IN PLACE, THE ADMINISTRATION IS MAKING ANY PRODUCTIVE RE-STRUCTURING OF HEALTH COVERAGE MORE AND MORE DIFFICULT.

I HOPE THAT THE NEW STANDARDS ADOPTED FOR DIAGNOSTICALLY RELATED GROUPS WILL BEGIN A NEW AND PRODUCTIVE REVIEW STRATEGY.

IN THESE DEBATES--AS WELL AS IN SUCH AREAS AS PRIMARY CARE PHYSICIANS, H.M.O.'S, AND PREVENTIVE HEALTH CARE--HOSPITALS AND PHYSICIANS PROVIDE A GREAT DEAL OF RESISTANT INERTIA. THE A.H.A. AND THE A.M.A. HAVE WORKED PERSISTENTLY AGAINST REGULATION AND PLANNING. THEIR OPPOSITION IS UNDERSTANDABLE: WITHOUT CONTROLS OF ANY SORT, HEALTH CARE REVENUES ARE, IN MANY WAYS, RECESSION-PROOF. PEOPLE WILL ALWAYS GET SICK, AND INSURANCE WILL OFTEN PAY.

UNLESS BUSINESS GROUPS CAN GENERATE LEGITIMATE ATTENTION TO THE COSTS OF HEALTH CARE, PROVIDERS WILL MAINTAIN THEIR SYSTEMS AND COSTS TO EVERYONE WILL CONTINUE TO GROW. I HOPE THAT THIS CONFERENCE IS A PRODUCTIVE ONE FOR YOU. I LOOK FORWARD TO WORKING WITH YOU IN THE FUTURE.

THANK YOU.